THE BROOKINGS INSTITUTION

CAN AMERICA GET ITS ENTREPRENEURIAL GROOVE BACK?

A DISCUSSION ABOUT PRIVATE CAPITAL'S ROLE IN THE ECONOMY

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PANEL FOUR: INNOVATION DRIVES GROWTH AND JOB CREATION, BUT WHAT DRIVES INNOVATION AND HOW DO WE GET MORE OF IT?

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P R O C E E D I N G S

MR. KURTZMAN: Good morning. I'm Joel Kurtzman, senior fellow at the Milken Institute and at Wharton, and I'd like to welcome everyone to this panel, which is on innovation and how we can get it going more quickly for the country for growth.

One of the disclosures I wanted to make, though, at the beginning, I just heard here, is that neither of my co-panelists are economists. So, that will give us a different perspective. However, we do have the opportunity, in some ways, to do kind of some real world tests of the statements, figures, and assumptions that were made by the economists and I would like to introduce my two panelists, and that is -- now, you have bios, so this will be just very short, and we have Ron Bloom, who was the President's czar -- I don't know whether that's a technical term or title, but -- for manufacturing, and he has recently taken on the small challenge of the Post Office. Now, Post Office, innovation panel, you draw your own conclusions.

And we have A.G. Lafley,who was the chairman and CEO of P&G and is now a partner at Clayton, Dubilier & Rice, a private equity firm, and has made the transition, in a sense, from the operating world where the innovations actually have to get put into the pipeline and conceived and developed and made, to more on the financial side.

So, what I'd like to start with, because innovation has come up a lot in terms of the whole day that we've had discussion is, how -- let's have a common definition of innovation. What do we mean by innovation? Ron?

MR. BLOOM: Well, I'm, again, not an economist so I can sort of say anything I want. I mean, I think innovation is relevant to a purpose, so innovation as -- we could describe it as doing things differently than we've done them before, but the purpose of innovation, the challenge we face, is obviously the fact that we are not creating good jobs. We don't have enough jobs, and we're not creating -- and the jobs we're creating are not good jobs.

So, I think the relevant question is, is innovation going to help us with that problem? So, the definition seems only relevant if it's to a purpose and I think the purpose, the reason why anyone gathers at this, is not to have innovation in the abstract, it's because we believe that by doing things differently we can create more wealth and that is the key to obviously what we want our economy to do for its citizens.

MR. KURTZMAN: Okay, so we're talking about innovation as a wealth creation tool. A.G.?

MR. LAFLEY: Well, I'm about as practical an operating manager as you're going to see probably, Ron and I, this morning. I think innovation has to create a customer or a more loyal customer. No customer, no innovation, no business. I think it has to create some value for that customer and ultimately has to create some value for that business. And if it does create value, I agree with Ron, it should result in employment.

MR. KURTZMAN: Good. So, we have some agreement on innovation. In very practical terms it's different from invention, it's different from creativity and so forth, it's practical, and we could, by the way, have an entire panel, I think, just on questions raised by Brooks in his panel, but one of the things he said, and I'd like to explore it a little, is that there's kind of a dearth of innovation right now, that we've kind of hit a wall, the low-hanging fruit has been picked except in few areas, IT and so forth, as he mentioned, we're running out of things to innovate around.

Is that true? Would you agree with that, Ron?

MR. BLOOM: Well, I would not agree with that. I think there's a huge amount of innovation going on out in the economy. You know, one of the things I did in the Administration is hang around the car business a little bit. You know, in 1956 the Ford Motor Company went public. At the time it went public it was a 50-year old company. Nobody in the prior 40 years -- so, if we take from Ford in '56 and go back sometime into the '30s, nobody started a car company in America. So there were no OE car producers that survived, and the Ford IPO is not the creation of a new company.

Last year Tesla went public. Last year a company that was formed a few years earlier had the temerity to believe that it could get into the OE car business, a business that most people would have said 10 years ago was closed. You can't start a new car company in America. That's preposterous.

There are dozens of people out there in America today who have that same temerity, who have that same audacity, that they can form car companies. Some of them -- none of them have gone public yet, and maybe they will and maybe they won't. My guess is most of them will fail, that is the nature of innovation and change. Some will be bought by a big company as happened when the car business was sort of first formed in America 100 years ago. But there are people out there in a little space I know a little bit about who have this audacious notion that they can form an OE carmaker.

So, I think there's a lot, a lot of innovation going on out there and I think it's fair to observe that the context into which innovation is occurring today and into which this challenge of creating good jobs is occurring is a different context than it was 10 or 15 years ago.

The basic rules of the -- the basic context of where the global economy is, the role that America plays in the global economy, this terrible overhang of deleveraging and lack of aggregate demand, these are all very important factors and so I don't want to wish away the seriousness of the problem, but I don't think we have lost in America the desire of people to start new companies.

MR. KURTZMAN: A.G.?

MR. LAFLEY: I couldn't agree more. I come from the non-innovative, large cap part of the world that doesn't create jobs: 33 years at P&G, 10 years as a director at GE, so we're talking about Fortune 25 companies here. The company I joined in 1977 did $5 billion in sales. The company I left in 2010 did $80 billion in sales. Yes, we made some acquisitions, but most of that was organic growth. You can do the math on the growth rate.

The company I joined originally employed 6,000; the company I left employed over 130,000. And that doesn't count our network of satellite suppliers and customers.

Both GE and P&G are spending more on R&D than they ever have in their history. I've seen more interesting and new material science, more interesting and new energy technology and energy sources, more interesting and new chemistry and biochemistry, and I'm a medieval and renaissance history major, so that should frighten you. But it's just not my experience.

I guess the other thing I would say, I'm also a bit of an historian and my recollection is in the doldrums of the '70s, the stagflation and -- we had at least two recessions, as I recall, in the '70s, another big recession in the early

’80s. That’s actually when a lot of the most innovative companies in America were created. And I was telling Ron earlier, I suspect we can’t see a lot of innovation that’s going on in garages and around America.

And I guess the last thing I would say, I don’t think there’s an issue with money. I accept the fact, and I’ve heard that small entrepreneurs and small businesses struggle a bit more and I understand that, but I think the capital is there. I think we just have to funnel it to those innovators.

I think the big opportunity is creating the associations, the connections, and the collaboration that really unleashes disruptive innovation, because a lot of disruptive innovation comes around the edges of established industries, it comes around the edges of existing technologies.

If you go into a hospital today, the pathology department is completely separate from the scanning or radiation or MRI department. Okay? Great diagnosis is going to come from a combination of the two disciplines and the two sciences.

So, there’s a lot of opportunity in finding ways to make the human connections and social connections, which, as I said, tend to be associative, connective, and collaborative, that are going to unleash a lot of the innovation that I think is there and ready to go, or at least ready to be unleashed.

MR. KURTZMAN: It’s kind of an American catechism, so to speak, to say that large companies are not the innovators. And you’ve just shown that, in fact, they can be.

Ron, you’ve just come out of working to transform an industry that has been considered to have lost its innovative capacity, but can large institutions, can large companies innovate? Can they become -- can they launch new products in the way that they could when they were brand new and young?

MR. BLOOM: Well, Exhibit A says they can, but let me talk about the car business and make another point. You know, I think there's an artificial distinction we make a lot of times, at least, again, my field has been manufacturing, so let me talk specifically about that. We talk a lot about small business and large business and in our sort of mythology, small business, good; big business, not so good; small business, innovative; big business, not so innovative.

In manufacturing I think there's a much deeper connection -- and, again, I'm not going to speak about service companies, it's just not something I know as much about -- but most small manufacturing companies sell to big manufacturing companies. That is most of their customers. So, the innovation that is occurring in a lot of these manufacturing sectors is collaborative between small companies and large companies, and that kind of relationship is a very important relationship.

And one of the things, I think, that has occurred in the car business in the U.S., which is a good development, is the car companies, the OEs have opened up in a much better way their relationship with their supply base.

There was a long period of time where there was a much more confrontational relationship between the OE customer, if you will, and his or her supplier. I think you're seeing a lot of collaboration and cooperation between the large and the small company and that's where the innovation is going to occur because I think there are -- I think there is a recognition, while there can be good innovation with a big company, and I think you see these companies reinventing themselves, it is true that the guys in the garage can offer an element which is harder to do in a big company.

Bigger companies find it hard, unless they really are exclusively focused on this problem, to kind of eat their young and so I think these problems have been documented. And so that's why that relationship between the OE and the supplier net is actually quite important. And I'm not sure there's a huge amount for the government to do, per se, in that area, but creating the -- setting the table, whatever phrase we want to use, for that kind of collaboration, innovation, I think, is at least in manufacturing where you will see a lot of very important innovation.

MR. KURTZMAN: You agree, A.G.?

MR. LAFLEY: Totally agree. And I think it's collaboration up and down the value chain and it's collaboration horizontally across adjacencies. In 2000, only about 10 percent of the new products and services we would bring to market in a given year had one or more external partners. We set a goal of getting that to half. We thought it was a stretch goal. I think in 2007 or '08, half -- more than half of all the new products had one or more external partners. A big chunk of them were suppliers --

MR. KURTZMAN: Yeah, describe what that means in terms --

MR. LAFLEY: Well, what that means is that we were doing 90 percent of our innovation in-house, on our own. Okay? And suppliers were providing materials and packaging and things like that, and then after that, you know, we'd be co-creating a polymer, a chemical polymer together, we'd be co-creating a new formula together, we'd be co-creating a new manufacturing process together. Okay?

But it wasn't just the supply chain. You know, we opened up to university research labs, university scientists, we opened up to government research centers, we've done a number of things with Los Alamos, we work with international, you know, research labs. We've actually -- I mean, there's a young Korean, literally, in a garage that we've done a couple of things with, you know, but we find each other on the Internet because we put out problems or issues of interest on the Internet and that's how we connect.

MR. KURTZMAN: Crowd sourcing type of --

MR. LAFLEY: All kinds of networks. Some are science and engineering networks, they're probably pretty obvious. Some are we literally pay bounties, you know, we have a technical problem that we're trying to solve and if you, you know, if you look like a likely partner to solve it, you know, we'll get together.

Let me comment on the other part because I think I have an insight from experience there. If you really think about innovation, it's a process and it starts with an ideation or a kernel of a technology or something that's, you know, very early in the formative stage, and somehow, someway it's got to be conceptualized and, I would argue, rapidly prototyped and put in front of a customer. And then if there's interest, it's got to be developed, which is all the feasibility issues, can we make it? Can we deliver it? Can we do it in a way that creates value? Then it's got to be qualified and then it's got to be commercialized.

But companies like P&G are really good at developing, qualifying, and commercializing. Frankly, we're not better at creating and we've had to teach ourselves rapid, low-cost prototyping because we tended to be the highcost spread in prototyping and it took too long. So, my view of the world is, there's a huge opportunity for us to provide complementary capabilities, okay, that can help accelerate, you know, accelerate entrepreneurs and innovators.

We introduced the only probiotic that you ingest by taking a tablet -- or actually it's a pill, it's a capsule -- everyday. Our partner was a small entrepreneur, okay, in Ireland.

We're running a company -- we're actually joint venturing a company called MDBIP. It's a, you know, I would call it a concierge alternative to family practice where doctors, instead of taking 1,500 to 2,000 patients, take 400 patients and they give you much better care and service, including an annual physical, nutritional help, you know, physical training help if you want it, all that kind of stuff.

But the point I'm trying to make is lots of our, I think, most interesting ideas and some with the potential to become, you know, new spaces, new industries, you know, came from this sort of, you know, marriage or at least dating of an entrepreneur who's got an idea but needs some capability we have. And the capability isn't money, the capability isn't capital, the capability is, you know, something that we can do to help him or her advance the ball along.

So, I think if you think about it as that funnel, there is actually a role for different players, you know, in the private economy. And I'm with Ron, I don't think, you know, at least a company the scale of GE and P&G, we don't need, you know, we don't need government subsidy. We need simpler regulation, you know. We need transparency, you know. We need rules that stick, but we don't need the incentives. The incentives, you know, there are certain parts of the economy, early stage, where I think the incentives are of more value.

MR. KURTZMAN: Well, let me ask you on that point, Ron, the automobile industry is still standing thanks to your work, in very large part, and I guess in a way you took on the role of private equity firm when you did that. You had government funding, you had authority, you had to change a culture as well in the companies that you worked with. How did that operate within the context of government? Were you able to do it successfully? Did you have a lot of headwinds from your counterparts and so forth?

MR. BLOOM: Well, the first thing I would say, as a broad matter of sort of public policy, what we did in the car business is not, in my opinion, a model of how the government ought to act in the private economy.

You know, we arrived in February of 2009. The economy was in free fall, all three companies were on the verge of liquidation, and a judgment was made that -- and I don't use this in kind of a technical term, but a judgment was made that the collapse of the car business posed systemic risk to the overall manufacturing economy. And so extraordinary times justify extraordinary measures, and so we did an intervention in the car business that is not, I think, a model as to how government ought to behave in the private economy.

But that said, it's an interesting little story and it does point out, I think, some of both the opportunity and the limits. I think your characterization of our work is, in fact, reasonable. We had a little skunkworks sort of inside the Treasury Department. Because of the odd way that the TARP was created we were given enormous freedom to kind of do the right thing and had, you know, support at the very top of the House, from the Secretary of the Treasury, the director of the NEC and the President of the United States, who said, do the right thing.

We were private equity in the sense that we were told to treat this as a commercial problem and to act like this was kind of -- we were the stewards of the taxpayers' money, and how do you fix this thing? I'll make two points. One is we were not told to target a return. We were told to fix a company and obviously private equity has a different mandate. They have a pile of money and they pick and choose their investments and they decide whether or not the particular opportunity provides an appropriate return for the beneficiaries they're ultimately speaking for.

That was not the mandate here. While Chrysler had a flavor of that in the sense of do it, don't do it, the mandate was to try to fix this industry. So, what I like to say is, our return analysis was just, we kind of took a -- we just kind of moved a decimal point over. So, we weren't trying to hit a particular return, we were trying to hit the best return that was available in the context of fixing the companies.

So, that's one thing, I think, that's important. And, again, it was a very odd set of circumstances and the degrees of freedom we were given are not the degrees of freedom the government normally has, which I think is among many reasons why it's not a model.

But the second thing is, and here, again, I think this goes to the nature of the different actors in the kind of private equity drama, while we were exceedingly interventionist during the restructuring and without apology, you know, as stewards for the taxpayers, involved ourselves in a number of key decisions that were made, although we did not take over the running of the company, that was left to the management. But immediately upon the conclusion of the restructuring a very conscious decision was made to step back and to essentially give the oversight of the company, instead of to the government, to a group of independent men and women who were set up to be on the boards of directors of these companies. And, again, that was a very conscious decision that had to do with the fact that while the intervention itself was justified, this level of intervention into the private economy is not a good model as to how we behaved and so there was a big step back.

MR. BLOOM: I think the relevance of that is, is that financial engineering, which is largely what can be done in a restructuring, was a critical part of fixing these companies. They were badly over-levered. Their cost structures were hopelessly out of whack. But the hard work of fixing companies, the culture change, which is ultimately the thing that really decides whether or not a company can go from a wealth destroyer to a wealth creator, was not our job. Our job was to find men and women who would supervise the management, be very active as a board of directors needs to be in supervising the management and making sure that they effectuated the culture change, but that was really, again, not a role that we felt government should play and we very consciously didn't play it.

MR. KURTZMAN: Let me ask you, A.G., so you ran one of the most iconic, largest companies in the country, in the world. And now you're in private equity. Is you thinking different as a private equity investor than as an operator? Are there changes as you look back when you were running P&G that if you looked at as a private equity investor you might have made differently? People talk about freedoms. Do private equity firms have more freedom to experiment, innovate, and so forth?

MR. LAFLEY: I guess the first thing I would say is Joe and Don, I think, want me to think like an operator. That's why I'm on board. So my primary responsibility at Clayton Dubilier -- and, frankly, their business model, their strategy and their business model, is I would call it two in a box. There's the financial leader and there's the operating leader. And from the time we're vetting the options for investment through the decision to make the acquisition through the operation for a period of usually five to seven years, through the exit, they're side by side and we try to generate 75 percent or so of the ultimate value creation from improvements in strategy and operations. So I think my role, my primary role, is the same.

There is a difference in time horizon. There is a difference in urgency. You know, at P&G we used to sort of pride ourselves in taking the very long-term view. Unfortunately, the law requires we report financial results on a quarterly basis in the United States of America, but, you know, we tried to, you know, minimize that and literally focus on decades at a time.

I think in the private equity game more of the value creation has been generated by the capital structure, the improvements in business focus and operations, and we're just beginning to learn that one of the big drivers is revenue growth, organic growth, or organic or inorganic if acquisition is the route. And we can get a little bit more the value creation in that area, so I think that's going to be interesting and maybe one of the reasons why I'm aboard.

And I guess the last point I would make is if you're really in an innovation game, you know, the capital has to be patient. There was a question of the earlier panel and I wonder whether the fundamental issue is too much of the capital isn't patient, okay, or patient enough.

And the other thing I would say, and actually this is just reaffirming something Ron said, this is an incredibly risky business. You know, in my simple industry of household products and personal care products, 85 percent of all new products fail. They're not around. They're not in retail distribution three years later. There's a museum in upstate New York full of failed P&G products, okay? (Laughter) No, they just -- it is a risky business, okay? So you're taking on risk and you're taking time horizons.

We were in the pharmaceuticals business. It could easily take us 15 years to come up with a new chemical compound for postmenopausal osteoporosis as we did. In some of our more capital-intensive paper businesses the cycle was easily a decade. You know, we worked for a decade on a totally new chemistry and technology for feminine protection. In the color cosmetics business, if I had the wrong lip color for the spring season, I was dead. (Laughter) So, you know, and we could all talk about whether that's innovation or not, but I don't want to go down that road. (Laughter)

But for the most part, the innovation cycle is longer and, for the most part -- I'm not saying private equity isn't, doesn't take risk. We do take risk. We work real hard to squeeze a lot of the risk out and it's a lower risk profile if we do it right than the risk profile that we take on some major new technologies and major innovations.

MR. BLOOM: Let me add something about -- and we had some discussion earlier about the different private equity, the mid-market versus the larger firms. And I think it might be interesting to sort of think about it this way: that the mid-market private equity firm is largely replacing another private owner. It might be a man and woman who started the family. It might be a family who's into the second generation, who wants to get liquidity. But generally speaking, in the size of the company that was identified, the alternative to private equity is not public capital markets. The alternative is some other form of private capital. And so we can compare those two forms of ownership and ask kind of what they bring to the party and what their aspirations are and whose time horizon is shorter, whose time horizon is longer. And I would argue, again, I'm sort of with Carl, I'm a bit agnostic on this. I think it's just good to see the distinction that if a family owns a business, it can be that their horizon is extremely long because a person can start it and tend to give it to their children, and so have sort of an infinite horizon. On the other hand, they may be less interested in innovation because a lot of what a small company is doing is simply making the money to support the lifestyle of owners. And so the idea of trying to be disruptive and take huge risks in a family business can be less than a private equity firm would do. So I think we can kind of compare and contrast in the mid-market.

When the alternative is the public capital markets I think, again, you have this odd dichotomy, which is the owners of the public company have a way shorter time horizon, by and large, than private equity, whether they're day traders or hedge funds or mutual funds. Their time horizon is exceedingly short. But because of the agency effect a management can have a lot of freedom, if you will, to have a longer time horizon. Now, what they do with that is not -- sometimes it is to build great companies and to take a very long time horizon and sometimes it's to try to maximize value very, very quickly to realize on stock options. So there's not -- again, there's not one behavior that exists. But I think it's important when we talk about private capital to distinguish because these are alternative forms of ownership and so the question is what is it an alternative to?

And I think, again, I'm agnostic as to whether any of those four -- that 2-by-2 matrix produces necessarily better results, but the compare and contrast between the two of them is quite different.

MR. LAFLEY: I think the key -- if I could just (inaudible) it because I think this is a very interesting discussion, the key is strategic alignment. We were fortunate, we were a public company, but half of our ownership, maybe a bit more, was individuals, okay? A big chunk of it was P&G retirees and every one of those 130,000. Okay. And we were lucky to have big holders like Warren Buffett and (inaudible) who had long time horizons, so we weren't, you know, buffeted too much by the hedge funds and the ones that wanted to churn. And they also knew we were the wrong industry and the wrong company to try to push volatility in any way, although there's been volatility (inaudible).

MR. KURTZMAN: And they didn't want to mess with you anyway. (Laughter)

MR. LAFLEY: Well, no, no. Actually that's -- yeah, that's another discussion. (Laughter) They have different ways of messing with you.

The other point, though, that I think builds on Ron's comments is that I think there's been a lot of -- you know, this is the whole point, it's about getting the right owner matched up with the right strategy. A lot of medium- to large-sized private equity has done well with carve-outs. Carve-outs are, frankly, the divisions that we didn't run as well. And the part of your question that I didn't answer is we got better at divesting, but we never divested soon enough. And we got better at partnering with private equity, but I don't think we were as good partners with private equity as we could have been because they were just businesses that we had that were, in the end, not strategic for us, where were not a strong enough player, not a leading player, that could be run better by private equity than we could run them.

MR. KURTZMAN: So the point of this panel is how do we accelerate innovation? How do we get more of it? And given what you've said so far and what's been discussed, how are we going to accelerate the innovation process and, in essence, make it more democratic, get more of it out there into the marketplace, more companies affected? Ron?

MR. BLOOM: Well, let me say, you know, till a couple of months ago, I worked here full time and so I can't resist doing at least a little bit of politics when I'm here. Look, I think we can have a good debate. We don't have to have it right now, but we can have a good debate about everyone's favorite, you know, company that begins with an S that's in the solar panel business. And we can have a good debate about what the proper role for government is in that part of Carl Shapiro's pyramid. I would observe that there shouldn't be, and yet there is, a debate about the bottom of the pyramid. So I would argue that there are things the government -- are pretty obvious that the government can and should do that are our political system is not permitting the government to do.

And again, obviously I work for the Obama Administration, so I'm somewhat partisan on this, but let me just step back and say it's a failure and others can assign the blame. But the fact that the government can borrow money essentially for free and isn't investing in infrastructure, which pays dividends both socially as well as greasing the wheels of commerce for business, as well as putting the people who are hardest hit by the recession back to work, on and on and on, the fact that we can't find a political solution to invest in infrastructure, we can't even find the political will to invest in infrastructure when the particular proposition in front is to do it in partnership with the private sector. So even when we put forward the notion of an infrastructure bank which says, look, the government shouldn't do all this, there's a lot of capital on the sidelines, everyone's favorite story. Let's find a way to have the government be the instigator, but let's have these deals be rooted in private participation. Let's do what the rest of the world does and look creatively at private capital coming into infrastructure. We can't even have that discussion.

We can't have a -- right now we can't even seem to agree to continue the payroll tax cut. We can't have a discussion about making permanent the R&D tax credit, which, again, one can debate exactly it's positive spillover effects, but it's hard to imagine that given the totality of our economy that whatever negative repercussions aren't outweighed by this as a way to spur innovation. Will it exactly have the impact we want? The economists can debate that, but it can't be that controversial an idea.

So here we have two ideas -- to invest in infrastructure and to make the R&D tax credit permanent -- and our political system doesn't permit us to have a rational discussion about how to do that. So I think that it goes back to where we were at the beginning. There's a lot of good stuff happening out in America. There are people, as I said, from my little world trying to invent OE car companies. There is a lot of people who believe still that they can come to America and change the world by building a great company. I think the challenge we face is our political system is not up to the challenge of setting the table properly. And again, I obviously have somewhat partisan view about the relative allocation of blame, but even if your view were the alternative to that, I hope we could all agree that the fact that it's not getting done is an important retardant to why we're not getting more output.

MR. KURTZMAN: So you're saying that essentially government is inhibiting innovation right now?

MR. BLOOM: I think government isn't doing -- again, long before you get to the discussion of whether we should do more Solyndras, long before you get to that discussion, we ought to be able to agree we should be doing infrastructure, and we can't even get to that. So yes, I think the failure of the political system to rally around what I would think of, and I think 80 percent of policy people would say is a pretty commonsense thing you ought to do in a time of slack demand and low interest rates, investing in infrastructure can't be a very controversial decision and we can't seem to come to that.

MR. KURTZMAN: A.G., how do we get more innovation?

MR. LAFLEY: We've never met and we're in incredible agreement here.

MR. BLOOM: Scary.

MR. LAFLEY: I think there are -- but I would say it this way: We need to be -- we need goal and strategic clarity; we need to be brutal on competitive advantage and where we really stand, really, really stand, okay, for innovation leadership.

So what do I mean by "goal and strategic clarity?" We don't have an energy strategy. You know, is energy independence most important? Is energy affordability most important? Is some environmental aspect of energy -- but if we were just crystal clear. You know, my hypothesis, energy independence is most important. We have the technology that can take just about any energy source, put it through just about any kind of energy plant and distribute it, okay, so it's not a huge technology problem. But I would argue we don't have a strategy. And, oh, by the way, we haven't had a strategy, you know, in my -- the lifetime I can remember, since the '60s and '70s. So I do think one of the roles of government is to be crystal clear on the goal and strategy.

Competitive disadvantages. You could make a case that our country has a major primary and secondary education competitive disadvantage. The point about not very much innovation in education came up earlier. There is some innovation. Some of these charter school programs, Teach for America, are doing a hell of a job. But for some reason, we can't get the innovation spread. It's spreading at the rate of pioneers crossing Oklahoma in 1907. (Laughter)

And I would argue we have some government competitive disadvantages. I like the rule of law. I much prefer a capitalistic democracy, but we have some disadvantages and the government has to take a hard look at what they are and they've got to straighten them out because they put us at this disadvantage when we're competing for innovation and we're competing in a very competitive global world.

MR. KURTZMAN: Thank you. Do we have time for a couple of questions?

SPEAKER: Well, maybe. Yeah, a couple minutes.

MR. KURTZMAN: Okay, a couple of minutes of questions. There's one in the back there.

MR. WHITE: So the word "ambiance" was used earlier.

MR. KURTZMAN: You want to identify yourself, please?

MR. WHITE: I'm sorry, yeah, Dan White (phonetic) and, like Rich, with ACG. The word “ambiance” was mentioned earlier. Within the confines of a large organization, you know, a public corporation, government, how do you create an ambiance within the organization that promotes innovation? Do you set up a skunkworks? Do you buy it? How do you promote it?

MR. LAFLEY: Within a GE or a P&G?

MR. WHITE: Also within the government. I mean, everybody talks about --

MR. LAFLEY: Oh, within the government, yeah.

MR. WHITE: Or, no, but also within the confines of a corporation.

MR. LAFLEY: Yeah, okay.

MR. KURTZMAN: By “ambiance,” you’re talking about table setting, meal, cooking --

MR. WHITE: A culture that promotes --

MR. KURTZMAN: -- and now candles.

MR. WHITE: -- innovation.

MR. KURTZMAN: Okay.

MR. LAFLEY: Ronnie and I actually spent some fair amount of -- you know, I have to confess, I served on the Innovation Committee of the President’s Job Council, so I have a bit of a stake in this and an oar in the water, but, hey, listen, at my company we had to declare very clearly what the strategy was and what role innovation played in the business model. It drove all of our organic revenue growth and a significant part of our margin improvement. Okay? Most importantly, it was the single best way to attract new customers, okay, and to convert current customers into ever more loyal customers. Okay, that was the most important.

So once we understood that, then we got crystal clear about which specific technologies. We picked 8 initially, 11 ultimately at the end of the day that we were going to be world-class in because they drove our household care and personal care product industries that we wanted to be the leaders in. And then we organized for it and then we worked like heck on the culture because we had to turn from being incredibly internally focused to being all of a sudden far more connected, far more collaborative. And that's going to be a 100-year process, right? The company's 175 years old. It's got the culture it had when I picked it up at 165 years. We made some progress, but it's going to have to continue on that course.

I don't think it's that different from the government. The only challenge the government has is less time to govern, right? You know, we could get into -- we have a system where, you know, representatives are elected every two years, the President's elected every four years. Unfortunately, the campaign cycle is longer than the governance cycle, which makes absolutely no sense to me. You know, we used to start at the time of the conventions, right, in late August, and then the campaign would basically be September and October, and we'd vote in November. You know, when did governance end and campaigning begin in this cycle?

So, I mean, I think conceptually it's not difficult. Practically it is a bear. It is a bear because we've evolved to the situation that we're in. We didn't just, you know, drop into the situation.

MR. BLOOM: I'll say one final comment, say one thing about the government as innovator and one barrier that I think -- I know that the administration has worked a lot on, but, again, I don't think this is a partisan point, I think this is a learning point. And it goes back to something A.G. said about sort of looking around the world and saying what we -- our basic frame in America rule of law, capitalist democracy, is obviously something we treasure and want to guard zealously. But I think the ability of government to learn from business is something we don't do very well in America. And partly it's simply the nature of kind of who goes into government versus who goes into business. There's not a lot of interplay back and forth.

Most businesspeople are aghast at the notion of going to serve in government because of the level of kind of invasiveness to your personal life and a whole lot of other reasons. But when you have companies that are as successful as some American companies are at doing innovation, that is something that the government can learn a lot from. But part of our problem is we're stuck in a relationship between government and business.

And by the way, I don't think this is a Democratic or a Republican problem. I think this is an American government problem as to how we kind of think about business and how we think about our relationship. And to bring companies in and try to learn from them would all of a sudden mean, you know, you were in bed with companies, that's not the way the world is -- that's not the way the rest of the world is working. The way the rest of the world is working is government and business are in a constant dialogue about how they can serve each other and do better together. That's just not been the nature of our discussion in America, and I think the innovation is just one example of that, but it's a good example where a whole lot of learning could take place between that would benefit both.

MR. KURTZMAN: Well, we're going to have to leave it at that.

Thank you, Ron. Thank you, A.G. (Applause)

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